

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

**ANSWER OF UNITED PARCEL SERVICE WITNESS
J. STEPHEN HENDERSON TO INTERROGATORY OF
THE ASSOCIATION OF AMERICAN PUBLISHERS
(AAP/UPS-T3-1)**

(February 11, 1998)

Pursuant to the Commission's Rules of Practice, United Parcel Service ("UPS") hereby serves and files the response of UPS witness J. Stephen Henderson to interrogatory AAP/UPS-T3-1 of the Association of American Publishers.

Respectfully submitted,


John E. McKeever
Attorney for United Parcel Service

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and

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Of Counsel.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

AAP/UPS-T3-1. Exhibit UPS-T-3C to your testimony identifies the Postal Service's proposed volume variable cost for Standard B Mail, Bound Printed Matter, to be 346,000,000 with a markup of 51%. Exhibit UPS-T-3B to your testimony identifies the volume variable cost for Standard B Mail, Bound Printed Matter, to be \$388,000,000 with a markup of 35.1%.

a. Please explain and justify, in detail, the differences between the volume variable costs for Standard B Mail Bound Printed Matter as set forth in each exhibit.

b. Please explain and justify, in detail, the differences between the markup for Standard B Mail Bound Printed Matter as set forth in each exhibit.

Response to USPS/UPS-T3-1. (a) The volume variable costs are different because my recommendation incorporates the assumption that mail processing costs are 100 percent volume variable, while the model that reflects the Postal Service's proposal assumes the mail processing variabilities described in the testimony of Postal Service witness Bradley. Accordingly, I have used \$389 million as the TYAR volume variable costs for Standard Mail (B) Bound Printed Matter, as developed by UPS witness Sellick.

(b) Two differences between my recommendation and the Postal Service's proposal account for the differences between the markups. First, the markup in my recommendation is based on the Commission's decision in Docket No. R94-1, appropriately scaled to account for the break-even requirement, while the markup for the Postal Service's proposal is based on the testimony of Postal Service witness O'Hara in Exhibit USPS-30B. Second, the markup in my recommendation is computed by dividing revenue by incremental cost and subtracting one, while the markup in the Postal Service's proposal is computed by dividing revenue by volume variable cost and subtracting one.

DECLARATION

I, J. Stephen Henderson, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

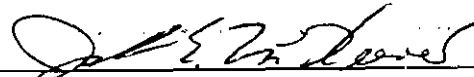


J. Stephen Henderson

Dated: February 10, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.



John E. McKeever

Dated: February 11, 1998
Philadelphia, PA